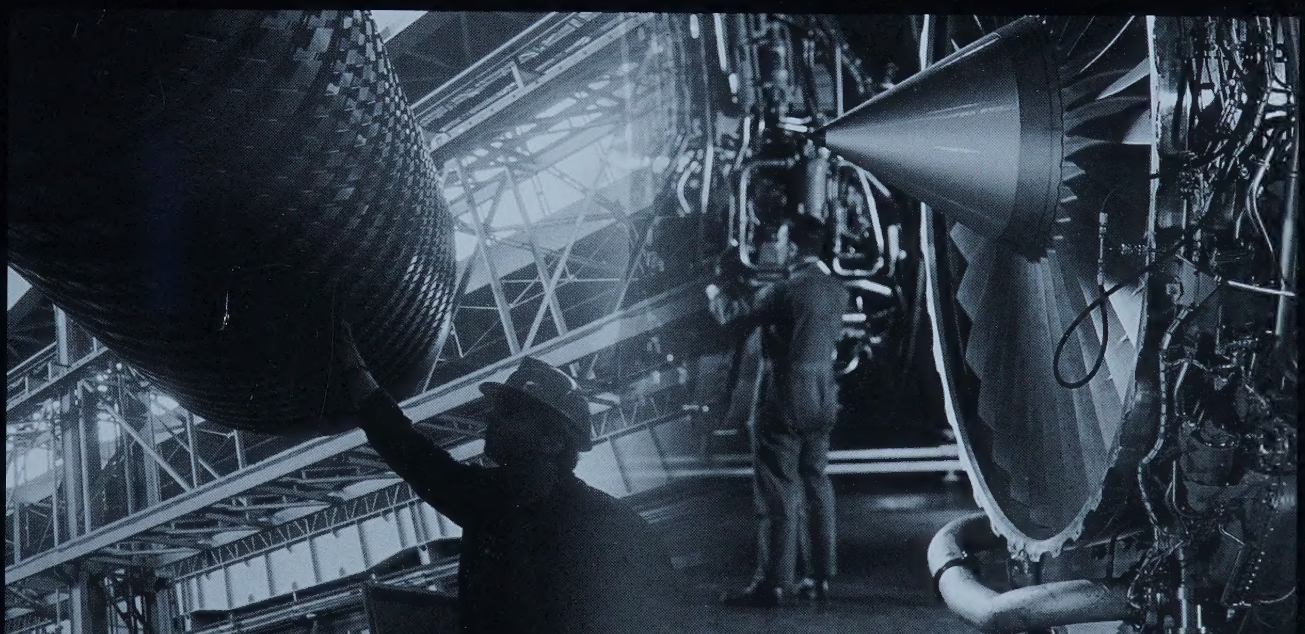
epicdata

Extending lean manufacturing practices



2005 Annual Report

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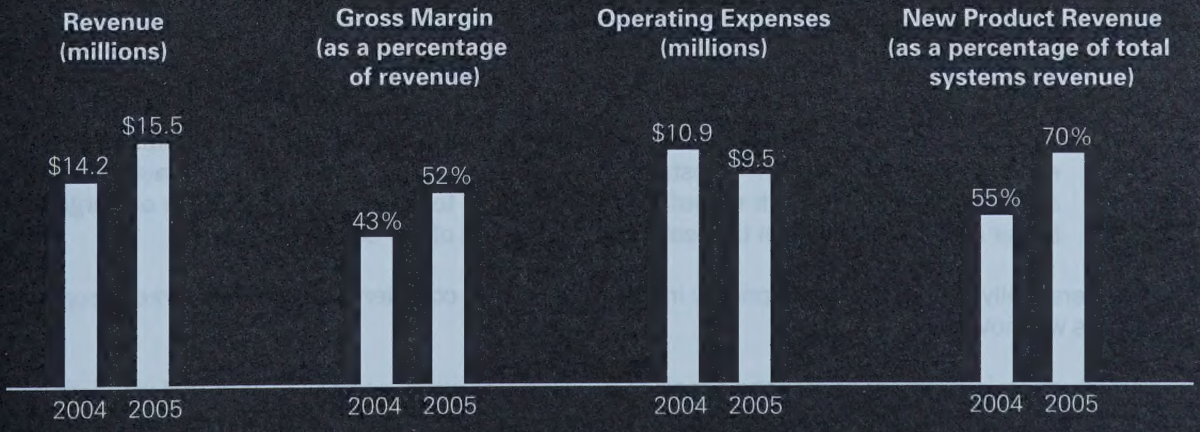
Financial Highlights

In 2005 we **gained traction** in the **marketplace** with our **collaborative manufacturing execution strategy** aimed at key segments of the **discrete manufacturing industry**.

The **success of our strategy** is reflected in the improvement of key financial performance metrics:

- **New product sales increased from 55% to 70%** of total systems revenue
- Overall **revenue increased by 9%** to $15.5 million
- **Gross margin improved from 43% to 52%**
- **Operating expenses were reduced by 12%** to $9.5 million



Dear Shareholders

2005 marks Epic Data's 30th year in business, a significant accomplishment in the constantly evolving information technology environment in which we operate. Like the technologies on which our solutions are based, we've evolved our business over this considerable period to continue to meet our customers in the marketplace and provide the fundamental business benefits they seek. Beginning back in 1975 with the industry's first purpose-built, shop floor data collection computer, innovation has been our driving force.

Epic Data continues to build on this tradition with our innovative new line of products for lean manufacturing. These collaborative manufacturing execution solutions gained further validation in the marketplace through important sales this year to some of America's leading organizations, including Bell Helicopter Textron, FedEx Express, Bath Iron Works and Raytheon Aircraft. In 2005, these new product lines accounted for more than 70% of our overall systems revenue, a remarkable achievement in such a short time since their introduction over the previous two fiscal years.

Lead by these stronger activity levels in our new product areas, we accomplished significant financial performance improvements over the prior year: we grew overall revenue by 9%; improved gross margins from 43% to 52%; and reduced operating expenses by $1.4 million, or 13%, compared to the prior year. All of these improvements added up to a $3.5 million bottom-line increase versus 2004, and I am very proud of the hard work and dedication our team continues to demonstrate in driving these improvements. Regrettably however, these year-over-year improvements were not sufficient to achieve profitability in 2005, and I am not satisfied with this level of performance.

Epic Data is a company that has customarily excelled at providing larger sized systems to some of the world's leading manufacturers in our target markets of aerospace and defense, automotive and heavy equipment. Our financial performance, in turn, is directly related to our success in bringing in a steady flow of these larger customer orders. This fiscal year was an excellent illustration of the impact of these larger systems sales on our overall performance. Notable sales to three of the four above mentioned customers drove higher revenue levels and a positive bottom line in the first half of fiscal 2005, while in the latter half of 2005, our performance dropped off, as a number of anticipated larger sales opportunities were delayed beyond the close of the fiscal year.

Achieving consistently higher sales levels going forward will directly relate to our ability both to create more sales opportunities and to shorten the time it takes to convert those opportunities into an order. We are currently implementing two strategies to achieve this:

- To increase the number of sales opportunities we are pursuing at any given time, we are implementing more targeted lead generation programs; and

- To shorten the sales cycle time for the opportunities we are pursuing, we are placing a greater emphasis on the return on investment that will result from our solution. To achieve this, we are augmenting our team with manufacturing expertise to assist, guide and train our organization to better assess and position the features and benefits of our solutions.

I am personally overseeing these priority initiatives and I am confident we will see marked progress in this area as we move forward.

The return on investment approach I speak of is based on proven performance in real world situations. At long-time customer Bell Helicopter Textron, for example, we are extending the materials receiving system into their considerable supply chain through our Advanced Shipping Authorization Server ("P3-ASA")

product. P3-ASA enables more efficient handling of incoming shipments by providing visibility into the suppliers' operations to not only ensure coordination of shipping schedules, but compliance with Bell Helicopter's labelling standards as well. This means less work in process and a more efficient materials handling operation, hallmarks of a leaner operation.

Innovative new products such as P3-ASA and our Materials Management System ("P3-MMS") helped Epic Data increase sales of standard software products this year to in excess of 10% of our overall revenue mix, up from 6% in 2004; a further positive financial trend on which we will continue to build.

Our next software product introduction which will play an important role in building this future is our Production Execution and Control System ("P3-PECS"). P3-PECS establishes and monitors "how" products will be built. It is a complimentary solution to typical ERP systems which are strong at determining "what" products need to be built. P3-PECS provides a line of sight from the order right through the manufacturing supply chain (or value stream). It provides real time visibility to everyone involved in activities being performed across each product's value stream, so that issues can be quickly identified and rectified. P3-PECS incorporates both a data collection and information dissemination infrastructure and software applications. It levels, synchronizes and coordinates demands on a real time basis, so that production velocity can be increased while materials employed are decreased. In short, it is a lean production execution system that is integrated with our material management and labour applications. We are excited at the potential this new offering brings to further our mission to accelerate and enhance our customers' lean initiatives.

I thank you for your continued support and I look forward to reporting our further progress to you in the coming quarters.

Peter C. Murphy
President & Chief Executive Officer

Management Discussion and Analysis

Basis of Presentation

The following discussion and analysis should be read in conjunction with the consolidated financial statements for the period ended September 30, 2005. The financial statements are prepared in accordance with Canadian Generally Accepted Accounting Principles in Canadian dollars. Commentary in this Discussion and Analysis is based on information available to management as of November 4, 2005.

We establish and maintain financial reporting disclosure controls and procedures to provide reasonable assurance that material information is appropriately disclosed in our financial statements. Based on our evaluation for the year ended September 30, 2005, we conclude that there are no significant weaknesses in the design or operation of these disclosure controls and procedures.

Additional information about Epic Data, including our Annual Information Form, can be found at www.sedar.com.

Industry Trends and Recent Developments

We market automated data collection based, lean manufacturing solutions to two predominant segments of the discrete manufacturing sector: Original Equipment Manufacturers ("OEMs") such as Lockheed Martin and tier 1 suppliers to the OEMs such as Lockheed-supplier Pratt & Whitney. Aerospace, automotive, and industrial equipment are Epic Data's principal vertical markets. Geographically, we focus marketing and sales efforts on large companies based in North America and Europe, while providing implementation services and post-sales support for installations in these regions as well as Asia and Latin America. We also provide products that utilize wide area wireless networks to deliver applications for parking enforcement and route management.

Manufacturers in Epic Data's principal vertical and geographic markets are faced with increasing competition from lower cost regions of the world. These competitive cost pressures are being compounded by more demanding consumers who are continuously pressuring manufacturers to provide greater selection with quicker delivery and higher quality. Time to market is becoming more compressed and product cycles are now measured in months or weeks, rather than in years. In response to these market conditions, manufacturers need to become even "leaner" than ever before - they need to attain higher efficiency, maintain quality, reduce time to market and increase production velocity at a lower cost.

In the face of this competitive pressure, our customers' solution buying decisions are increasingly based on operational criteria versus the more traditional IT drivers, such as compatibility with existing computer systems and keeping up with the latest trends in technology. Operational based decisions, by contrast, focus more on how a proposed solution will impact critical success factors, such as increasing manufacturing velocity, reducing inventory and improving product quality and customer service. Consequently, these buying decisions are increasingly moving into the hands of operational leaders, while IT management is taking on more of a supporting role in the assessment of solutions.

At the same time, technological advances, including lower cost computing power, increasing wireless network capacity and more open, internet centric technology platforms are evolving the landscape for the data collection industry. Traditional, pure data collection systems in this new environment require less specialized, lower cost skills to develop and implement; "off the shelf" hardware devices are increasingly commoditized; and interoperability with host systems has been simplified through open standards software tools such as .net, XML and Java. However complex and robust, a data collection system that does no more than simply feed data to a host application is viewed more and more as a lower value-added "utility" by our target market.

Faced with these structural changes in our marketplace, we observed that customers placed significantly more value on solutions that could not only reliably capture and manage data, but also provide functionality to improve the performance of their manufacturing and materials management areas. Real time visibility into manufacturing activities and the movement of material across the manufacturing supply chain provides invaluable data at both execution and management levels.

Our P3-CME product strategy focuses on addressing the needs driven by these trends in the market. Real-time visibility provided by our products enables managers and production staff to make more effective production decisions. Two-way communication feeds critical information down and up the production line and into the manufacturing supply chain. Visibility to material movements and labour on the shop floor helps track and prioritize resources. This is an improvement over conventional data collection solutions that simply make existing host system processes more efficient and less error prone, but do not typically add significant functionality. P3-CME goes beyond this conventional data collection capability by providing production execution functionality that improves manufacturing performance.

P3-CME incorporates four integrated modules:

- The **Materials Management System ("P3-MMS"),** or ***Parts,*** module offers full materials management capabilities, helping to manage just-in-time supply flows and production replenishment. This solution makes it easy for production staff to respond to demand pull signals and move materials to the right place on the manufacturing floor, in the right quantity, at the right time.

- The **Advanced Shipping Authorization ("P3-ASA")** module streamlines materials handling by extending manufacturers receiving systems to their suppliers with secure internet access. It provides visibility to incoming shipments through advance shipping notices and guarantees shipping and label compliance to the manufacturer's standards.

- The **Time & Labour Capture ("P3-TLC"),** or ***People,*** module provides instant access to time and attendance information. It controls access through integrated RFID and biometric readers, tracks employee time for payroll and monitors labour, by customer order, work order, lot and serial numbers. TLC is re-sold by Epic Data through an agreement with Kaba

Management Discussion and Analysis (continued)

Benzing America Inc., a leading global provider of time and attendance, access control and production data collection systems

- Currently under development is the **Production Execution and Control System ("P3-PECS",** formerly known as "eSFX"), or ***Process***, module that will give managers a robust tool to capture real-time production data. It will continuously track production rates, measure cell and line performance, and monitor throughput against daily targets. It will allow tracing of production by customer order, lot and serial number. PECS will enable instant identification and response to issues on the manufacturing floor.

We also continue to provide conventional enterprise data collection solutions specifically targeted to interface with enterprise applications, including both custom as well as standardized applications from companies such as Baan, Oracle and SAP, as well as stand-alone applications that are independent of enterprise applications.

In 2003, in order to enhance the complete lean manufacturing solution, we introduced the MPT9100, a shop floor data collection and communications workstation for manufacturing environments. This was the first new proprietary data collection hardware that the company has offered in several years.

We will continue to introduce further new hardware devices to round out the MPT family of multi-purpose workstations. We recently introduced a wireless version of the MPT9100 which now allows us to target the vehicle-mount, forklift based market, as well as the stationary, shop floor markets targeted by the original, wired product. We've also introduced the MPT9500 mini workstation, a lower cost, smaller footprint alternative to the full featured MPT9100. This device is targeted for the Time and Labour collection market as well as the manufacturing shop floor. The MPT family of workstation products is manufactured to Epic Data's specifications by third party electronic manufacturing service providers.

Prior to the introduction of the MPT9100, our focus in the area of hardware was on the re-sale of devices from OEMs such as Symbol Technologies and Intermec Technologies. Our market strategy with respect to hardware now includes both OEM and proprietary devices such as the MPT9100.

Our product lines that utilize wide area wireless networks to deliver applications for parking enforcement and route management also continue to evolve. Existing installations, which include the City of Vancouver, represent the world's most advanced real-time parking enforcement systems on the market today.

Results of Operations

General

In 2005 our overall revenue increased by 9% to $15.5 million versus the prior year level of $14.2 million. Cost reductions, productivity improvements and higher product margins resulted in a $4.5 million improvement in the bottom line on this $1.3 million year over year increase in revenue.

Despite these performance improvements, we posted a net loss for the year of $1.7 million, as revenue levels fell short of expectations, particularly in the last half of the year. Significant customer orders which were anticipated during this period were delayed, and are now expected to close in the early stages of fiscal 2006.

Staffing and other cost reduction measures implemented in 2004 resulted in Operating expense reductions of $1.4 million in 2005 versus the prior year. Despite these significant head count reductions in 2004 and in prior years, we have substantially maintained key skill sets and knowledge critical to servicing our current customer base as well as addressing our future strategic direction.

Other cost containment measures implemented in 2004, such as the linking of North American employees' retirement savings plan contributions to the achievement of profitability targets, remained in place this year.

We are continuing to dedicate the majority of our product development, marketing and sales efforts to the success of the P3-CME and MPT workstation product lines for discrete manufacturers. Although 2005's sales levels in these areas were not sufficient to achieve profitability, we continue to track a significant number of sales opportunities as we move into fiscal 2006.

Sales cycle length, or the time it takes to move from initial customer contact to the finalization of a purchase order, continues to be longer than anticipated, particularly with our larger P3-CME opportunities. Achieving increased sales levels going forward will be directly related to our ability to both create more sales opportunities and to shorten the time it takes to successfully convert those opportunities into an order. We are currently implementing two separate strategies to achieve this:

- To increase the number of sales opportunities we are pursuing at any given time, we are implementing more targeted lead generation programs; and
- To shorten the sales cycle time for the opportunities we are pursuing, we are placing a greater emphasis on the return on investment that will result from our solution. To achieve this, we are augmenting our team with manufacturing expertise to assist, guide and train our organization to better assess and position the features and benefits of our solutions.

Both of these programs will be implemented in our first quarter of 2006.

To support working capital requirements necessitated by the operating losses in the third and fourth quarters, we put in place two separate borrowing arrangements in the last half of the year. The first was a two year term loan from a company owned by a member of the Board of Directors in the amount of $1.0 million. The second was a non-revolving credit facility with a Canadian chartered bank in the amount of $0.73 million.

Overall staff count at year-end stands at 90, up from 82 at the beginning of the fiscal year on October 1, 2004.

Management Discussion and Analysis (continued)

Employee count at September 30	2005	2004	2003
Professional services	24	22	25
EPICare support	13	13	18
Sales, marketing and administrative	35	33	38
Product development	18	14	11
Total employees	**90**	**82**	**92**

Revenue and Gross Margin

Epic Data's revenue consists of four significant components: professional services, hardware products and software licensing (collectively referred to as "systems" revenue), and ongoing customer support contracts (also referred to as maintenance or EPICare).

Cost of sales components include employee compensation related to professional services and support as well as related costs such as travel, communications, infrastructure and operational management. The cost of manufactured and re-sold hardware products and support contracts on re-sold hardware are also included in cost of sales.

The following table provides a breakdown of revenue sources as well as the resulting gross margins for 2005 and 2004 (in thousands of Canadian dollars).

	2005		2004		Variance	
Revenue						
Hardware	$ 5,599	36%	$ 4,497	32%	$ 1,102	25%
Software	1,730	11%	862	6%	868	101%
Professional Services	3,103	20%	2,786	20%	318	11%
Systems Total	**10,432**	**67%**	**8,145**	**57%**	**2,288**	28%
EPICare Maintenance	5,114	33%	6,084	43%	(970)	-16%
Total Revenue	**15,546**	**100%**	**14,228**	**100%**	**1,318**	9%
Cost of Sales						
Hardware	2,925	52%	2,543	57%	382	15%
Software	181	10%	93	11%	88	95%
Professional Services	2,509	81%	2,915	105%	(405)	-14%
Systems Total	**5,616**	**54%**	**5,550**	**68%**	**66**	1%
EPICare Maintenance	1,888	37%	2,496	41%	(608)	-24%
Total Cost of sales	**7,503**	**48%**	**8,046**	**57%**	**(543)**	-7%
Gross Margin						
Hardware	2,674	48%	1,954	43%	720	37%
Software	1,548	90%	769	89%	779	101%
Professional Services	594	19%	(129)	-5%	723	-
Systems Total	**4,817**	**46%**	**2,594**	**32%**	**2,222**	86%
EPICare Maintenance	3,226	63%	3,588	59%	(362)	-10%
Total Gross margin	**$ 8,043**	**52%**	**$ 6,182**	**43%**	**$ 1,861**	30%

Revenue

Our overall revenue increased by $1.3 million on the strength of a $2.3 million, or 28% improvement in systems volumes, partially offset by a $0.97 million decline in EPICare business versus 2004.

The significant improvement in systems revenues was largely driven by stronger sales of P3CME and MPT workstation based solutions, particularly in the first half of the year. These orders resulted in software license revenue in the year that totalled $1.7 million (2004 = $0.86 million), essentially doubling the previous year's license revenue achievement. Revenue generated from hardware sales was $5.6 million (2004 = $4.5 million), a 25% increase, and professional services made up the balance of our systems revenue at $3.1 million (2004 = $2.8 million).

A continuing strategic focus for the company is to increase the proportion of revenue generated from standard software license products as well as our MPT workstation product line within the overall revenue mix by emphasizing solutions centered on our P3-CME based, discrete manufacturing products. In 2005, systems revenue based on P3-CME and MPT solution sets made up in excess of 70% of our overall systems revenue.

Somewhat offsetting this improved systems performance was a further decline in support contract revenue in 2005. Revenue from this area declined by 16% in 2005 to $5.1 million. As with other IT solution providers, our support contract revenue levels are a function of the following significant factors:

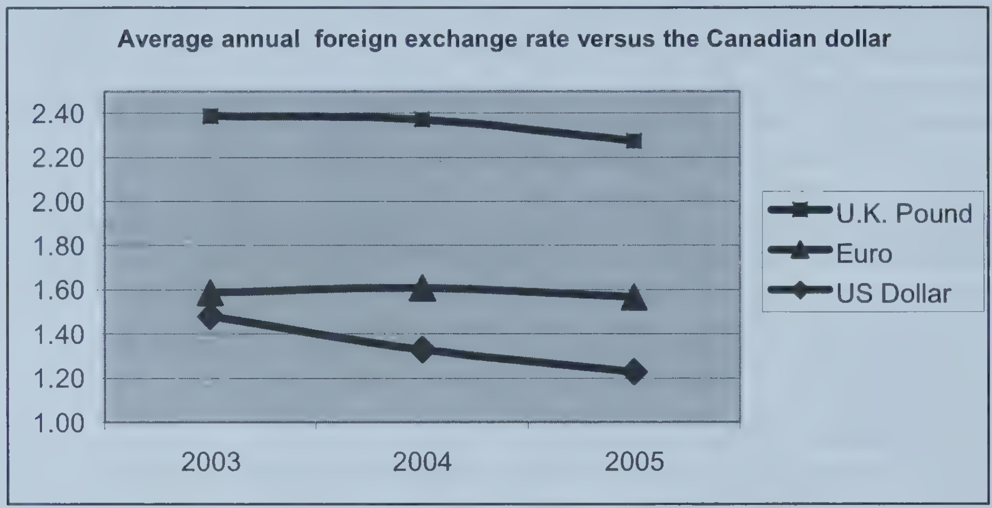
- The number and size of new systems implemented;
- The adoption rate at which our customers enter into support agreements on these new systems; and
- The rate at which our existing supported customers renew existing support agreements.

While EPICare adoption rates for new systems and renewal rates on existing systems remain strong, the main reason for the recent decline in EPICare revenue is the lower number and size of recent new system implementations. New systems volumes had been on the decline since 1999, reaching a low point in 2004. New EPICare agreements resulting from these lower system volumes during this period have been insufficient to replace EPICare contract cancelations from existing customers. This year's increase in new systems revenue represents a positive indication for future EPICare revenue levels. In the latter half of 2005, we in fact saw a stabilization of quarterly EPICare revenue levels and we anticipate this declining trend to subside.

Our results are also impacted by fluctuations in the exchange rate between our reporting currency (Canadian dollars) and the three other primary currencies in which we transact business. Historically, substantially all of our revenue is generated outside of Canada while a significant proportion of our costs in areas such as personnel, head office facilities, IT support, communications, travel, insurance

Management Discussion and Analysis (continued)

and corporate governance are incurred within Canada. As a result of this business structure, if these primary currencies weaken in relation to the Canadian dollar, our results will generally be negatively impacted. Average annual exchange rates versus the Canadian dollar for the most recently completed three fiscal years were as follows:



During 2005, all three primary currencies weakened in relation to the value of the Canadian dollar. Had these currency values remained constant compared to rates experienced in 2004, our revenue in Canadian dollars for 2005 would have been approximately $1 million higher than reported. Partially offsetting this negative exchange impact on revenue was a positive bottom line impact for expenditures transacted in these foreign currencies. Overall expenditures in 2005 would have been approximately $0.6 million higher than reported, had exchange rates remained constant year over year.

Overall contracted sales backlog, or the value of orders received but not yet delivered, decreased by 18% from $6.2 million to $5.1 million during the year. Contracted sales backlog at September 30, 2005 includes approximately $2.0 million (2004 = $2.9 million) in systems contracts, representing a decrease of 32% versus the prior year's position. Support contracts made up the balance of the overall year end backlog at $3.1 million (2004 = $3.3 million). The majority of systems contracts in place at year end will be delivered over the first 6 months of fiscal 2006, while the majority of support contracts are delivered within a one year time frame.The following table provides a summary of our year end backlog poistion in 2005 and 2004 (in thousands of Canadian dollars).

Contracted Sales Backlog	2005			2004			Variance		
Systems	$	2,003	40%	$	2,944	47%	$	(941)	-32%
EPICare Maintenance		3,059	60%		3,254	53%		(195)	-6%
Total Backlog	$	5,062	100%	$	6,198	100%	$	(1,136)	-18%

Significant new contracts from both existing and new customers were awarded to the company during the year. These customers included Bell Helicopter Textron, naval ship builder Bath Iron Works, chemical manufacturer Daikin America, FedEx Express and Raytheon Aircraft. All of these customers purchased new systems based on our P3-CME software or MPT workstation solutions.

In 2005, one customer, Bell Helicopter Textron, represented 12% of our overall revenue with all other customers generating less than 10% individually. In 2004, no single customer exceeded the 10% threshold.

Gross Margin

Our gross margin as a percentage of revenue will fluctuate from period to period as a result of a number of factors, such as overall revenue volume, the mix of various products which comprise overall revenue, the productivity of our professional service organization, systems pricing and product procurement cost. For example, systems (comprising components of hardware, software licenses and professional services) based on our new P3-CME software suite include a greater proportion of relatively higher-margined license revenue compared to systems based on Epic Data's older ERP offerings such as Connectware for Baan. As well, systems designed for the manufacturing shop floor will generate inherently higher hardware margins than systems targeted for materials management in the warehouse. This is because our shop floor systems feature Epic Data's MPT line of workstations while our warehouse based systems will generally incorporate hardware offerings from third party OEM's resold at lower gross margins than our proprietary products. The productivity of our professional service group is a function of a number influences. These include such factors as the number of hours spent on revenue generating activities (also known as "utilization") in a given period, the selling price of those hours, and the extent to which work is completed within the budgeted number of hours.

Our overall (combined systems and support) gross margin as a percentage of revenue improved to 52% in 2005 versus 43% in the prior year. Within the overall gross margin results, systems gross margins improved to 46% versus 2004 levels of 32%, while support contracts also generated increased gross margins at 63% compared to 59% in the prior year, despite the $0.97 million year-over-year decline in support contract revenue. As of year end, we have approximately 160 active EPICare customers, essentially unchanged from the number of customers at the commencement of fiscal 2005 but down from fiscal 2004's opening customer count of 190.

Year over year overall gross margin value was up by $1.8 million on a combination of this improved gross margin percentage performance and overall volume improvements versus the prior year.

Our systems gross margin for the year was $4.8 million versus systems gross margins in the prior year of $2.6 million, an increase of $2.2 million on the year over year systems revenue increase of $2.3 million. As a percentage of revenue, the year's 14 percentage point improvement in systems gross margin versus 2004 was driven by improvements in two specific areas:

Management Discussion and Analysis (continued)

Firstly, our professional services group demonstrated improved productivity, generating 11% more revenue on a cost base which was 14% lower than the prior year. Cost reduction measures, including head count reductions undertaken in the third quarter of 2004, had a significant impact on this year's $0.7 million professional services gross margin improvement over 2004. The downsized group's higher revenue achievement resulted from structural changes coupled with a greater emphasis on standardized development and testing processes. These initiatives contributed to an improved ratio of billable versus non-billable time in the current year, a significant driver of professional service performance. In 2004, professional services overcapacity and severance costs related to the afore mentioned head count reductions contributed to a gross margin of negative 5% for the year versus positive 19% in 2005. There were no material changes in the pricing of our professional service hourly rates in the year.

The second area of significant systems gross margin percentage improvement was in the area of hardware sales. Hardware gross margins improved from 43% in 2004 to 48% in 2005, an increase of $0.7 million on a hardware revenue increase of $1.1 million. These improvements were the result of increased demand for our MPT workstations, particularly in the first and second quarters of 2005. There were no material changes in the cost of procuring both OEM and Epic Data proprietary hardware products during the period. Fluctuations in hardware margins are a result of variations in the mix of differing proprietary versus OEM devices comprising overall hardware revenue.

Software gross margin percentages remained relatively constant at 90% and 89% in 2005 and 2004 respectively. The value of software gross margins, however, improved significantly on the year's $0.9 million increase in software revenue. Increased sales of new products such as P3MMS drove these year over year software margin increases of $0.8 million. Software gross margins include the cost of royalties to repay government assistance received by the company in support of the development of our eXpresso software product in 2001 and 2002. Cost of this 2% royalty during fiscal 2005 totalled $0.13 million (2004 = $0.03 million) and now totals $0.17 million since the commencement of the repayment period. These contingent royalties have been payable since April 1, 2004 on revenue generated on all components of any system or system maintenance agreement which includes eXpresso software.

We expect our gross margin percentage to continue to fluctuate from period to period primarily as a result of variations in both overall product mix and productivity performance of our professional services group.

Operating Expenses

Operating expenses include costs related to selling, marketing and administration as well as product development expenditures.

The company maintains a direct sales force geographically dispersed throughout North America, Great Britain and France. A centralized marketing department located at our Richmond, British Columbia head office, supports the sales force. Cost of selling and marketing consists mainly of employee compensation and related travel, communications, conferences, market research,

materials and advertising. Administrative costs include facilities, IT infrastructure and communications, executive, central support staff, public company costs, audit and legal fees as well as bad debt and foreign exchange transactions.

Product development expenditures consist primarily of employee compensation costs for the centrally managed group located at the company's head office as well as sub-contracted design and development services as required.

The following table provides a breakdown of our operating expenses for 2005 and 2004 (in thousands of Canadian dollars):

Operating Expenses:	2005	2004	Variance	
Sales & Marketing	$ 3,775	$ 4,855	$ (1,080)	-22%
General & Administrative	4,113	4,206	(93)	-2%
Product Development	1,654	1,890	(236)	-13%
Total Operating Expenses	$ 9,542	$ 10,951	$ (1,409)	-13%

Overall, operating expenses were reduced by $1.4 million, or 13% versus 2004, primarily reflecting savings from reduced staffing levels, travel, communications and facilities. Of these overall savings, selling, marketing and administrative costs accounted for $1.2 million of the difference, while product development expenditures were reduced by $0.24 million.

Included in general and administrative costs are foreign exchange losses (primarily against the US dollar and UK pound) of $0.21 million, which compared unfavourably to losses in 2004 totalling $0.12 million. Collections of previously allowed for accounts receivable resulted in a net recovery of $12 thousand versus recoveries in 2004 of $49 thousand. The balance remaining in the allowance for doubtful accounts stands at $0.13 million as at September 30, 2005 (2004 = $0.25 million). Our Richmond, B.C. head office facility has significant unused and underused space, which we are attempting to sublease (for further discussion see "Other expenses (earnings)" section below).

As was the case in 2004, the majority of our product development efforts this year were directed towards the further enhancement and build-out of our P3-CME product line for discrete manufacturers. Our core development group, which consisted of 18 team members as at September 30, 2005, is supplemented by personnel from our professional service group on as required basis. In 2005, approximately $0.12 million in net development costs were incurred as a result of such internal personnel transfers versus $0.52 million last year. In both 2004 and 2005, internal resources consisting of the core development team and professional services personnel as required, contributed substantially all of our development efforts, with a minimal amount of sub-contracted design and development services utilized during the year. In accordance with our strategic plan, we intend to continue to invest a significant proportion of future revenues in the enhancement of existing products and in the development of new products.

Management Discussion and Analysis (continued)

P3-CME's PECS module is under development and is planned for introduction in the 2006 fiscal year. Our original schedule planned for the introduction of this module in the 2004 fiscal year; however, a decision was made to postpone this while resources were focused on the refinement and enhancement of the MMS and ASA modules of the P3-CME product. PECS will capture real-time production data and continuously track production rates, measure cell and line performance, and monitor throughput against daily targets for discrete manufacturers. It will allow tracking of production by customer order, lot and serial number. The PECS module will enable real-time identification and response to issues on the manufacturing floor.

Other expenses (earnings)

Amortization expense declined by $0.30 million to a level of $0.42 million, reflecting a reduced asset base resulting from recent years' consistently lower capital expenditure levels. We anticipate that going forward, amortization will no longer be trending down as amortization related to property and equipment acquired prior to this period of consistently lower expenditures is now substantially complete.

During 2003, it was determined that the amount of space we lease for our head office facilities exceeds our requirements. At September 30' 2003, the company accrued a provision of $1.2 million representing the estimated net present value of future contractual obligations that were in excess of our estimated future requirements. The net present value of the provision takes into consideration the offsetting impact of estimated future sublease income against these obligations. At September 30, 2005, the accrued provision stands at $0.85 million (2004 - $1.05 million). Of this total provision, $0.20 million is classified as a short term liability within Accounts payable and accrued liabilities with the remainder classified as a long term liability. The net cash outlay related to these charges will be incurred over the 51 months remaining on the term of the lease and will be funded from available sources of liquidity.

Net finance charges consist of three components: (1) Interest income, (2) Interest expense and bank charges and (3) Amortization of related party loan warrants. The table immediately following provides a breakdown of these three components for 2005 and 2004 (in thousands of Canadian dollars).

	2005	2004
Interest income from cash and cash equivalents	($98)	($89)
Interest expense and bank charges	88	27
Amortization of related party loan warrants	17	-
Net finance charges	$7	($62)

Interest income in 2005 represents a net return on the approximately $4.0 million average cash and cash equivalent balance for the year of 2.5% (2004 = 1.6%). Interest charges related to two new borrowing arrangements entered into in the last half of the year attributed to the increase in interest expense and bank charges. Bank charges also include costs related to the standby letter of credit provided to our head office landlord. Amortization of warrants related to one of the above two loans made up the balance of Net finance charges in the year. In 2004 there was no equivalent warrant amortization.

Income taxes

Our results in 2005 have created additional non-capital losses, which may be applied to offset taxable net income in the future. Note 8 to the financial statements provides details on these non-capital losses available to the company in future years. The potential value of these non-capital losses along with other future tax assets has not been included in the financial results for the fiscal 2005 year. As of September 30, 2005, the unrecognized estimated value of these future tax assets was $10 million (2004 = $10 million).

Related Party Transactions

During the year, on June 21st, 2005, we concluded terms of an unsecured loan with a company owned by a member of our Board of Directors. The principal amount of $1.0 million is repayable on June 21st, 2007, but at the company's option, the loan can be repaid earlier without penalty. Interest is payable, in arrears, every six months, at a rate of 7% per annum. During 2005, $0.02 million in interest expense was recorded in the net finance charges section of the Statement of Operations, in relation to this loan. Terms of the loan included the issuance of 250,000 warrants which entitle the holder to purchase shares of the company for a price of $1.25 per share. Should the company elect to repay the loan prior to the expiration of the full two year term, unexercised warrants held at the time of repayment, up to a maximum of 200,000 warrants, will be canceled. 50,000 warrants will be exercisable up to June 21st, 2007, irrespective of the potential early repayment of the loan. Further information regarding these warrants is described in Note 6 to these financial statements.

A Board of Directors member is a senior partner at a firm that has been engaged to provide legal services to the company. We are not obligated by contract to continue this relationship, nor are we committed by contract to future expenditures with this firm. The cost of these services, aggregating to $0.03 million in 2005 was charged to selling, marketing and administrative expenses.

The above related party transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

Capital Resources and Liquidity

At September 30, 2005, there is $3.7 million in total cash and cash equivalents ($2.0 million of which is pledged as security to our landlord) and $0.85 million in total working capital (2004 = $1.2 million). Our total cash and cash equivalents increased by 5% during the year from an opening position of $3.5 million at September 30, 2004.

Management Discussion and Analysis (continued)

Net cash used in operating activities for the year ended September 30, 2005 was $0.55 million compared to net cash used in operating activities in 2004 totalling $3.5 million. The cash impact of net losses during the year was partially offset by an injection of cash as a result of our entering into a non-revolving credit facility with a Canadian chartered bank. The credit facility is insured by Export Development Canada, based on the value of an export sale to a defense industry customer located in the US. Additional security is provided by a general security agreement in favour of the bank. The maximum amount of credit on commencement of this facility, which is denominated in U.S. dollars, is USD $0.63 million. The facility is scheduled to be paid down over time, but no later than March 2006. Payments to the bank will correspond to collection from the customer, based on our completion of certain project deliverables. Interest will be charged at the bank's floating US dollar prime lending rate plus 1% (At September 30, 2005 the bank's US dollar prime lending rate is 7.25%).

Other activities with respect to non-cash operating statement items and non-cash working capital items during the year were in line with business volume.

Financing transactions in 2005 generated $1.1 million, primarily resulting from a related party loan entered into during the year. Terms of the unsecured loan were finalized in June with a company owned by a member of the Board of Directors. The principal amount of $1.0 million is repayable on June 21st, 2007, but at the company's option, the loan can be repaid earlier without penalty. Interest is payable, in arrears, every six months, at a rate of 7% per annum. Terms of the loan included the issuance of 250,000 warrants which entitle the holder to purchase one share of the company per warrant for a price of $1.25 per share. Should we elect to repay the loan prior to the expiration of the full two year term, unexercised warrants held at the time of repayment, up to a maximum of 200,000 warrants, will be canceled. 50,000 warrants will be exercisable up to June 21st, 2007, irrespective of the potential early repayment of the loan. The following table describes the accounting treatment of this loan:

	Warrants	Contributed surplus	Related party loan	Accreted value of consideration	Net finance charges
At inception, June 21, 2005	250	$128	$872	$1,000	
Amortization - June 21 to September 30, 2005			17	17	$17
As at September 30, 2005	250	$128	$889	$1,017	$17

Other financing activity in 2005 and 2004 related to the exercise of options under our employee stock option plan. We do not have any off-balance sheet finance or special purpose entities.

Net capital expenditures totalled $0.34 million in 2005 versus $0.17 million in 2004. In both years, these expenditures were mainly related to sustaining investments in technology equipment, software and infrastructure. We anticipate similar levels of sustaining annual capital expenditures on an ongoing basis.

At year-end, there are 1,762,970 stock options outstanding which are exercisable at prices between $0.40 and $1.20 per share and 250,000 share purchase warrants outstanding at $1.25 per share. If all options and warrants were exercised, the company would receive proceeds of $1.5 million. These funds would be available to the company as working capital.

The weighted average diluted number of shares outstanding for the year was 14,377,000, compared to 14,125,000 in 2004. Changes to the weighted average diluted number of shares during these periods reflect the impact of new stock option grants and share purchase warrants offset by the cancellation and expiration of existing option rights under the stock option plan. We did not issue any shares from treasury during the period other than shares issued pursuant to our stock option plan.

Based on current cash flow projections prepared by management, we believe there are sufficient cash and cash equivalents to meet our anticipated cash and working capital needs for the foreseeable future. However, unanticipated costs and expenses or lower than anticipated revenues could necessitate additional financing, as well as reductions in expenditures, which may include further restructuring of the company. There can be no assurances that such financing, if required, will be available on a timely or cost effective basis. To the extent that such financing is not available on terms favourable to the company, or at all, or reductions in expenditures are required, we may not be able to, or may be delayed in commercializing planned new products and to ultimately achieve profitable operations.

We will continue to evaluate projected expenditures relative to available cash and to evaluate additional means of financing and cost reduction strategies, should these be necessary, in order to satisfy working capital and other cash requirements.

Commitments

As of September 30, 2005, our fixed commitments for cash payments include obligations under facilities leases. Details of these commitments are presented in note 13(a) to the financial statements. Lease terms on our head office premises include a provision whereby the company provides a standby letter of credit as security to the landlord, which at September 30, 2005 amounted to $2.0 million. The facility is reduced by $0.4 million on December 31 of each year. Security to the bank for the facility is provided by a pledge of cash equivalents. The head office lease term expires on December 31, 2009.

We also order materials and services from our vendors in the normal course of business controlled by a purchase order based system. At any given time there will be outstanding purchase orders that have not yet been fulfilled by our vendors.

We are committed to future payments for office premises leases and as yet unfulfilled purchase orders with our landlords and vendors as follows (in thousands of Canadian dollars):

Management Discussion and Analysis (continued)

	Open Purchase Orders	Office Leases	Total
2006	$ 1,386	$ 832	$ 2,118
2007		761	761
2008		753	753
2009		718	718
2010		177	177
Thereafter		nil	nil
	$ 1,386	$ 3,241	$ 4,627

Critical Accounting Policies and Estimates

Certain accounting policies are critical to understanding our reported financial results. These critical policies, which affect the reported amounts of revenue and the more significant areas involving management estimates, are described here. For a complete description of the company's significant accounting policies, refer to note 2 to the financial statements.

Revenue Recognition

Our arrangements with customers include the sale of automated data capture systems, which includes hardware, software license fees, implementation and modification of new and existing software, and subsequent support and maintenance of those systems. The revenue is evaluated based on each arrangement based on the terms of each agreement with respect to multiple element arrangements.

Revenue associated with multiple element arrangements is attributed to the various elements based on its relative fair value and is recognized on an accrual basis in accordance with the contractual arrangements provided that collectibility is reasonably assured. The individual elements are recognized as revenue as described below:

- Revenues from the sales of hardware for which objective evidence exists, is recognized on delivery of the products as we fulfill our obligations in accordance with the contractual arrangements. We do not generally sell hardware as an integrated unpriced required element of a system implementation.
- Software includes both unmodified standardized software products as well as software products which are modified to the customer's specifications on a project by project basis. Revenue recognition for unmodified and modified software products is as follows:
    - Revenue for unmodified standard software products is recognized upon completion of any services which are not separable and are essential to the functionality of the software. In general, recognition occurs when the installation of the standard software is complete.
    - Services related to the modification of our software are not separable and are essential to the functionality for the customer. As a result, we account for the software and customization services using the percentage of completion method of contract accounting. We determine percentage of completion on fixed fee contracts using hours incurred to date compared to total estimated hours

to complete the project. When the total cost estimate exceeds revenue, the estimated project loss is recognized immediately.

- Support contracts, which require our ongoing involvement are billed in advance and recorded as deferred revenue and amortized over the period of the ongoing involvement, typically one year.
- We provide separate professional services consisting of consulting, system design, project management, software customization services, software and hardware installation, system integration, bar code labeling and customer training. These services are charged on a time and materials or fixed price basis. We recognize revenue as the services are performed. Revenue is estimated by comparing the forecasted total effort required to complete the specific deliverable to the actual effort expended to date. These determinations are re-evaluated on a monthly basis and are typically based on a number of factors, including past experience with similar deliverables; the complexity of the solution; the skill level, knowledge and experience of the personnel assigned to the project and the maturity and applicability of the underlying standard software being utilized. When the total cost estimate exceeds revenue, the estimated project loss is recognized immediately. These estimates, in total, have a significant impact on determining our overall systems revenue; however, because revenue is derived from several individual projects at any given time, the impact of a single incorrect estimate does not generally materially impact overall revenue.

Allowance for Doubtful Accounts

The company provides an offset to the gross value of trade accounts receivable, which represents management's estimate of the net realizable value of those receivables after eliminating uncollectible amounts. In estimating this provision, consideration is given to the age of the receivable, the credit worthiness of the customer, historical experience, and specific communications with the customer as well as many other relevant factors. Changes in any of these circumstances may necessitate an adjustment to the estimated provision, which would in turn impact the company's financial results.

Provision for Unused Leased Premises

The amount of space the company leases for its head office facilities currently exceeds our requirements. We have expensed an amount representing the estimated net present value of future contractual obligations that were in excess of our estimated future requirements. The provision is determined by calculating net present value of the total future cost of the identified unused space offset by the estimated sublease income in the future. Estimating the future sublease income involves significant subjectivity based on factors such as general economic conditions, suitability and location of the premises, as well as anticipated sublease activity levels and vacancy rates in the immediate area. Currently, management estimates the future sublease recovery at approximately 46% of the future lease costs. These assumptions are revisited on a regular basis, at a minimum, annually.

Stock Based Compensation and Other Stock Based Payments

The company adheres to CICA Accounting Standards Board amended CICA HB section 3870 which requires entities to account for stock-based compensation awards granted to employees using the fair value based method for fiscal years beginning on or after January 1, 2004. Under the fair value

Management Discussion and Analysis (continued)

based method, compensation cost is measured at fair value at the date of grant and is expensed over the award's vesting period.

The fair value of each stock option grant is estimated on the date of the grant using the Black-Scholes option pricing model. This model considers a number of factors, including the historical volatility of the market price for the underlying shares, the expected life of the stock options, the expected dividend yield and the current risk free rate of interest. These factors are subject to inherent variability over time in addition to some degree of estimation, which could impact the determination of the fair value of the stock options and in turn, the amount expensed in a given period.

In 2005, the amount of stock based compensation and other stock based payment costs totaled $0.10 million (2004 = $0.01 million). Should circumstances around the factors used in the fair value model change significantly, this could materially impact the estimated amount of stock based compensation and other stock based payment costs in the future.

Selected Financial Information

The following is a summary of certain selected audited consolidated financial information for our most recently completed fiscal year and for the two preceding fiscal years:

All in $1,000's except Earnings (Loss) per Share and Number of Shares	**Audited (Fiscal Year ended September 30)**		
	2003	**2004**	**2005**
Working capital:	5,523	1,157	848
Revenues:	26,512	14,228	15,546
Gross profit:	13,693	6,182	8,043
Gross profit/share:	1.10	0.50	0.64
Product Dev. expenses:	2,324	1,890	1,654
Selling, mktg. & admin. expenses:	10,716	9,062	7,888
Net loss:	(1,367)	(5,179)	(1,723)
Net loss/ share:	(0.11)	(0.41)	(0.14)
Total assets:	16,767	10,104	9,437
Property & equipment:	1,685	1,146	1,067
Non-revolving credit facility:			733
Related party loan:			889
Prov. for unused leased facilities(long term portion) :	1,000	850	650
Total liabilities:	7,759	6,251	7,061
Share capital:	58,519	58,543	58,789
Number of shares at year end:	12,467,684	12,487,694	12,547,214
Deficit:	(49,511)	(54,690)	(56,413)

The following is a summary of certain selected unaudited financial information for the most recent eight fiscal quarters comprising the company's preceding two fiscal years:

All in $1,000's except Earnings (Loss) per Share	Fiscal Year ended Sept. 30, 2004 Quarter Ended				Fiscal Year ended Sept. 30, 2005 Quarter Ended			
	Dec 31	Mar 31	Jun 30	Sep 30	Dec 31	Mar 31	Jun 30	Sep 30
Working capital:	4,298	2,773	994	1,157	1,259	1,700	1,824	848
Total assets:	14,393	12,039	10,304	10,104	10,100	9,931	9,229	9,437
Long term liabilities:	951	900	850	850	800	750	700	1,539
Revenues:	3,083	3,269	3,427	4,449	4,804	4,465	2,916	3,361
Gross profit:	1,501	1,255	1,024	2,402	2,453	2,528	1,383	1,679
Gross profit /share:	0.12	0.10	0.08	0.19	0.20	0.20	0.11	0.13
Net earnings (loss):	(1,333)	(1,856)	(2,006)	(76)	58	65	(920)	(925)
Net earnings (loss)/ share:	(0.11)	(0.15)	(0.15)	(0.01)	0.00	0.01	(0.07)	(0.07)
Deficit:	(50,844)	(52,700)	(54,614)	(54,680)	(54,632)	(54,567)	(55,487)	(56,412)

Adoption of New Accounting Policies and Changes in Existing Accounting Policies

We did not adopt any new accounting policies, nor did we change any existing accounting policies during the year.

Business Risks

Epic Data is subject to numerous business risks. We prudently manage our operations to minimize the impact of areas involving risk; however investors should carefully consider the following information.

Our sales efforts target large corporations that require sophisticated data capture and production execution systems to collect and analyze data relating to various operational activities. We expend significant time and resources educating prospective customers about the features and benefits of our solutions. Our sales cycle usually ranges from 3 to 12 months and sales delays could cause our operating results to vary. The company balances this risk by continuously assessing the condition of our sales "funnel" and making the appropriate adjustments as far in advance as possible. Our strategy also includes a comprehensive program to build and improve relationships with our long-standing customers to better understand needs and proactively manage incoming business levels effectively.

Our revenue and profit potential depends substantially upon market acceptance of both our new products and enhanced existing products. To mitigate the risk of non-acceptance by the market, our strategy involves ongoing significant investments in product development to enhance our product line

Management Discussion and Analysis (continued)

and to develop new applications and features to satisfy the increasingly sophisticated demands of our customers. Along these lines, we introduced new products such as the MPT9100 and MPT9500 data capture workstations and the P3-CME Collaborative Manufacturing Execution Suite of software products. We are also ensuring our investments in this area are based on a thorough understanding of market and customer demands through a comprehensive program of market research and customer interaction.

Our success depends on the ability of our products to interface with host computer systems and to respond to changes in these systems. In many cases the needs of our customers require us to make significant custom modifications to our products. Our success will depend upon our ability to efficiently undertake and complete such customization, in most cases, under a fixed price arrangement. To minimize the risk of cost overruns, we have implemented stringent pre-contract approval processes as well as industry-leading quality control standards during implementation.

Our future success will largely depend on our ability to attract and retain key, highly skilled, technical personnel. Although the company has initiated significant staff reductions in the past 5 years, we have managed to retain our key technical personnel. The company offers competitive compensation packages and working conditions, and invests a significant amount of its annual employee related costs in various training programs intended to attract and retain personnel.

Our sales are principally outside of Canada and are generally conducted in currencies other than the Canadian dollar while a majority of our research and development expenses, professional services, customer support costs and administrative expenses are in Canadian dollars. Fluctuations in the value of foreign currencies relative to the Canadian dollar could negatively impact our financial results. We cannot predict the effect of exchange rate fluctuations upon our future operating results.

We outsource the manufacture of our proprietary hardware products to third parties. If they do not manufacture our products properly or cannot meet our needs in a timely manner, we may be unable to fulfill our product delivery obligations and our costs may increase, and our revenue and margins could be negatively impacted. Our reliance on third party manufacturers subjects us to a number of risks, including the absence of guaranteed manufacturing capacity and the inability to control the amount of time and resources devoted to the manufacture of our products. To mitigate this dependency, we have contractual relationships with two separate manufacturing service providers and maintain contact with additional alternative suppliers in case our primary manufacturing sources should be disrupted.

The current competitive landscape in our market is fragmented and includes many small players. Bigger, more established companies with greater resources but currently not participating in this market could move into this market and negatively impact our business. Such potential competitors could include hardware OEMs, ERP providers and other supply chain and manufacturing execution software providers. If we were to be unable to compete effectively with such companies, our market share and revenues could be reduced.

We derive a significant portion of our revenue from the sale of our solutions to a relatively limited number of customers. If any of our more significant prospective customers fail to purchase our solution or our existing customers discontinue their relationship with us for any reason, our revenue may be substantially reduced. To mitigate this risk, we have implemented customer retention programs to emphasize both quality of product and superior customer service. Our sales programs also address a large base of potential customers and at any given time, we are pursuing a significant number of sales opportunities.

We are targeting significant revenue growth in 2006 versus 2005. We may have difficulty managing this targeted revenue growth, which may damage our ability to retain key personnel and to compete effectively. Our future success will depend on our ability to manage our growth including: continuing to train, motivate, manage and retain our existing employees and attract and integrate new employees; maintaining adequate professional services capacity; and developing new products in a timely manner. The company balances this risk by continuously assessing sales forecasts and making the appropriate capacity adjustments as far in advance as possible.

Our intellectual property is important to our success. Third parties may attempt to copy aspects of our products and technology or obtain information we regard as proprietary without our authorization. If we are unable to protect our intellectual property rights against unauthorized use by others, it could have an adverse effect on our competitive position. We could be required to spend significant funds and our managerial resources could be diverted in order to defend our rights, which could disrupt our operations. We rely on trademark and copyright law to protect our products. In general, we do not formally register copyrights, but do have a patent pending for our ProXwedge data capture device. We have registered the trademark "Epic Data" in the United States, Canada, France, Great Britain and Germany. We do not license source code for our standard products; however, we do license source code for customized products. We request all employees to execute confidentiality agreements.

Our revenues and earnings may fluctuate from quarter to quarter, which could affect the market price of our common shares. A number of factors could cause such fluctuations, including the timing of releases of our new products, the timing of substantial orders, and possible delays in the manufacture or shipment of current or new hardware products. Because our operating expenses are determined based on anticipated sales, are generally fixed and are incurred throughout each fiscal quarter, any of the factors listed above could cause significant variations in our revenues and earnings in any given quarter. Thus, our quarterly results are not necessarily indicative of our overall business, results of operations and financial condition. However, quarterly fluctuations in our revenues and earnings may affect the market price of our common shares.

Based on current cash flow projections prepared by management, we believe there are sufficient cash and cash equivalents to meet our anticipated cash and working capital needs for the foreseeable future. However, unanticipated costs and expenses or lower than anticipated revenues could necessitate additional financing, as well as reductions in expenditures, which may include further restructuring of the company. There can be no assurances that such financing, if required, will

Management Discussion and Analysis (continued)

be available on a timely or cost effective basis. To the extent that such financing is not available on terms favourable to the company, or at all, or reductions in expenditures are required, we may not be able to, or may be delayed in commercializing planned new products and to ultimately achieve profitable operations. We will continue to evaluate projected expenditures relative to available cash and to evaluate additional means of financing and cost reduction strategies, should these be necessary, in order to satisfy working capital and other cash requirements.

Forward-Looking Statements

Our annual report contains forward-looking statements that involve risks and uncertainties. These forward-looking statements are based on current expectations of management. We caution investors that due to risks and uncertainties, actual events may differ materially from current expectations.

Management Responsibility for Financial Statements

The accompanying consolidated financial statements of the Company were prepared by management in accordance with Canadian generally accepted accounting principles. Financial information presented throughout the Annual Report is consistent with that shown in the consolidated financial statements.

Management is responsible for the integrity of the consolidated financial statements. Financial statements generally include estimates which are necessary when transactions affecting the current accounting year cannot be finalized with certainty until future years. Based on careful judgments by management, such estimates have been properly reflected in the accompanying consolidated financial statements.

Systems of internal control are designed and maintained by management to provide reasonable assurance that assets are safeguarded from loss or unauthorized use and to produce reliable accounting records for financial reporting purposes.

The external auditors conduct an independent audit of the consolidated financial statements in accordance with Canadian generally accepted auditing standards in order to express their opinion on these financial statements. Those standards require that the external auditors plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board exercises this responsibility through the Audit Committee of the Board. This Committee meets with management and the external auditors to satisfy itself that management's responsibilities are properly discharged and to review the financial statements before they are presented to the Board of Directors for approval.

Peter C. Murphy
President and Chief Executive Officer

James S. Code
Chief Financial Officer

Richmond, Canada - November 4, 2005

Auditors' Report to the Shareholders

We have audited the consolidated balance sheets of Epic Data International Inc. as at September 30, 2005 and 2004 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at September 30, 2005 and 2004 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Vancouver, Canada - November 4, 2005

EPIC DATA INTERNATIONAL INC.

Consolidated Balance Sheets
(Thousands of Canadian dollars)

September 30, 2005 and 2004

	2005	2004
Assets		
Current assets:		
Cash and cash equivalents	$ 1,675	$ 1,106
Accounts receivable (note 3)	3,686	4,578
Inventory (note 4)	451	361
Prepaid expenses	558	513
	6,370	6,558
Cash equivalents pledged as security (note 13(a))	2,000	2,400
Property and equipment (note 5)	1,067	1,146
	$ 9,437	$ 10,104
Liabilities and Shareholders' Equity		
Current liabilities:		
Non-revolving credit facility	$ 733	$ -
Accounts payable and accrued liabilities	2,649	3,038
Deferred revenue	2,140	2,363
	5,522	5,401
Long term liabilities:		
Related party loan, net of equity portion of $111 (2004 nil) (note 7(d))	889	-
Provision for unused leased facilities (note 13(b))	650	850
	1,539	850
Shareholders' equity:		
Share capital (note 7)	58,788	58,543
Deficit	(56,412)	(54,690)
	2,376	3,853
	$ 9,437	$ 10,104

Continuing operations (note 1)
Commitments (note 13)

See accompanying notes to consolidated financial statements.

On behalf of the Board:

J. D. Douglas

Peter C. Murphy
President & Chief Executive Officer

Derek Douglas
Chairman

EPIC DATA INTERNATIONAL INC.

Consolidated Statements of Operations and Deficit
(Thousands of Canadian dollars except per share amounts)

Years ended September 30, 2005 and 2004

	2005	2004
Revenue	$ 15,546	$ 14,228
Cost of sales	7,503	8,046
Gross margin	8,043	6,182
Operating expenses:		
Selling, marketing and administrative	7,888	9,062
Product development	1,654	1,890
	9,542	10,952
Loss before undernoted items	(1,499)	(4,770)
Other expenses (earnings):		
Amortization of property and equipment	416	713
Unused leased facilities (note 13(b))	(200)	(150)
Net finance charges	7	(62)
	223	501
Loss before income taxes	(1,722)	(5,271)
Income taxes (recovery) (note 8)	-	(92)
Loss for the year	(1,722)	(5,179)
Deficit, beginning of year	(54,690)	(49,511)
Deficit, end of year	$ (56,412)	$ (54,690)
Loss per common share - basic and diluted	$ (0.14)	$ (0.41)
Weighted average number of shares	12,506	12,480

See accompanying notes to consolidated financial statements.

EPIC DATA INTERNATIONAL INC.

Consolidated Statements of Cash Flows
(Thousands of Canadian dollars)

Years ended September 30, 2005 and 2004

	2005	2004
Cash provided by (used in):		
Operating:		
Loss for the year	$ (1,722)	$ (5,179)
Items not involving cash:		
Amortization of property and equipment	416	713
Provision for unused leased facilities (note 13(b))	(200)	(150)
Accretion of related party loan (note 7(d))	17	-
Stock-based compensation expense	83	14
	(1,406)	(4,602)
Change in non-cash operating working capital:		
Accounts receivable	892	2,336
Inventory	(90)	(149)
Prepaid expenses	(45)	250
Non-revolving credit facility	733	-
Accounts payable and accrued liabilities	(389)	(755)
Deferred revenue	(223)	(603)
Total of non-cash operating working capital	878	1,079
	(528)	(3,523)
Investing:		
Net acquisition of property and equipment	(337)	(174)
Cash equivalents pledged as security (note 13(a))	400	400
	63	226
Financing:		
Related party loan	1,000	-
Proceeds on exercise of employee options	34	10
	1,034	10
Increase (decrease) in cash and cash equivalents	569	(3,287)
Cash and cash equivalents, beginning of year	1,106	4,393
Cash and cash equivalents, end of year	$ 1,675	$ 1,106
The Company's cash position consists of:		
Cash and cash equivalents	$ 1,675	$ 1,106
Cash and cash equivalents pledged as security (note 13(a))	2,000	2,400
Cash position	$ 3,675	$ 3,506
Supplementary information:		
Income taxes recovered	-	$ (92)
Interest paid	$ 10	-

See accompanying notes to consolidated financial statements.

EPIC DATA INTERNATIONAL INC.

Notes to Consolidated Financial Statements
(All tabular dollar amounts are expressed in thousands of Canadian dollars, except per share amounts)

Years ended September 30, 2005 and 2004

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1. Nature of business and continuing operations:

The Company is incorporated under the laws of British Columbia and its principal business activity includes the development of transaction software and hardware interfaces between custom and enterprise resource planning systems and electronic data capture systems.

The Company's shares trade on the Toronto Stock Exchange under the symbol EKD.

These consolidated financial statements have been prepared on the going concern basis, which presumes the realization of assets and the settlement of liabilities in the normal course of operations. The application of the going concern basis is dependent upon the Company achieving profitable operations to generate sufficient cash flows to fund continued operations, or in the absence of adequate cash flows from operations, obtaining additional financing. The Company has reported losses and negative cash flows from operations for the year ended September 30, 2005. Continued operations of the Company will depend upon the attainment of profitable operations, which may require the successful completion of external financing arrangements.

Management has undertaken to significantly reduce costs through a series of actions including, but not limited to, reducing the number of employees, reducing operating expenses and considering other financing alternatives for its operations. However, unanticipated costs and expenses or lower than anticipated revenues could necessitate additional financing or reductions in expenditures which may include further restructuring of the Company. There can be no assurances that such financing, if required, will be available on a timely or cost effective basis. To the extent that such financing is not available on terms favourable to the Company, or at all, or reductions in expenditures are required, the Company may not be able to or may be delayed in being able to commercialize its products and services and to ultimately attain profitable operations. The Company will continue to evaluate its projected expenditures relative to its available cash and to evaluate additional means of financing and cost reduction strategies in order to satisfy its working capital and other cash requirements.

2. Significant accounting policies:

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

(a) Principles of consolidation:

The consolidated financial statements include the accounts of Epic Data International Inc. and its subsidiaries, Epic Data Inc., Epic Data Corporation, Epic Data Holdings Inc., Epic Data France SA, Epic Data (UK) Ltd. and Epic Data GmbH (Germany), all of which are wholly owned. All significant intercompany accounts and transactions have been eliminated.

(b) Cash and cash equivalents:

Cash and cash equivalents include securities that on acquisition have an initial term to maturity of three months or less.

EPIC DATA INTERNATIONAL INC.

Notes to Consolidated Financial Statements
(All tabular dollar amounts are expressed in thousands of Canadian dollars, except per share amounts)

Years ended September 30, 2005 and 2004

2. Significant accounting policies (continued):

(c) Cash equivalents pledged as security:

Cash equivalents pledged as security are classified as long term assets as they are restricted as security for future lease payments.

(d) Inventory:

Inventory consists of electronic components and finished goods and is valued at the lower of cost and estimated net realizable value.

(e) Property and equipment:

Property and equipment are stated at cost. Amortization is provided on a straight-line basis using the following annual rates:

Asset	Rate
Furniture and fixtures	10%
Leasehold improvements	10%-20%
Equipment	20%-33%
Software	33%-50%

(f) Warranty provision:

A provision for the estimated warranty expense is established by a charge against operations at the time products are sold. Subsequent costs incurred for warranty claims reduce this liability. Revisions to the warranty provision are charged against income as determinable.

(g) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

(h) Deferred revenue:

The Company offers and sells post implementation maintenance and support contracts for its products. The revenue for such contracts is deferred and recognized over the life of the contract on a straight-line basis. Additionally, the Company defers revenue on projects where customer billings exceed the value of products and services provided.

EPIC DATA INTERNATIONAL INC.

Notes to Consolidated Financial Statements
(All tabular dollar amounts are expressed in thousands of Canadian dollars, except per share amounts)

Years ended September 30, 2005 and 2004

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2. Significant accounting policies (continued):

(i) Revenue recognition:

The Company's arrangements with customers include the sale of automated data capture systems, which includes hardware, software license fees, implementation and modification of new and existing software, and subsequent support and maintenance of those systems. The revenue is evaluated based on each arrangement based on the terms of each agreement with respect to multiple element arrangements.

Revenue associated with multiple element arrangements is attributed to the various elements based on its relative fair value and is recognized on an accrual basis in accordance with the contractual arrangements provided that collectibility is reasonably assured. The individual elements are recognized as revenue as described below:

- Revenues from the sales of hardware for which objective evidence exists, is recognized on delivery of the products as the Company has fulfilled its obligations in accordance with the contractual arrangements. The Company does not generally sell hardware as an integrated unpriced required element of a system implementation.
- Software includes both unmodified standardized software products as well as software products which are modified to the customer's specifications on a project by project basis. Revenue recognition for unmodified and modified software products is as follows:
    - Revenue for unmodified standard software products is recognized upon completion of any services which are not separable and are essential to the functionality of the software. In general, recognition occurs when the installation of the standard software is complete.
    - Services related to the modification of our software are not separable and are essential to the functionality for the customer. As a result, the Company accounts for the software and customization services using the percentage of completion method of contract accounting. We determine percentage of completion on fixed fee contracts using hours incurred to date compared to total estimated hours to complete the project. When the total cost estimate exceeds revenue, the estimated project loss is recognized immediately.
- Support contracts, which require the ongoing involvement of the Company are billed in advance and recorded as deferred revenue and amortized over the period of the ongoing involvement of the Company, typically one year.
- The Company provides separate professional services consisting of consulting, system design, project management, software customization services, software and hardware installation, system integration, bar code labeling and customer training. These services are charged on a time and materials or fixed price basis. The Company recognizes revenue as the services are performed.

EPIC DATA INTERNATIONAL INC.

Notes to Consolidated Financial Statements
(All tabular dollar amounts are expressed in thousands of Canadian dollars, except per share amounts)

Years ended September 30, 2005 and 2004

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2. Significant accounting policies (continued):

(j) Product development costs:

Product development costs are expensed as incurred, unless they meet generally accepted accounting criteria for deferral and amortization. In the opinion of management, all of these criteria for deferral have not been met. Therefore, all product development costs to date have been expensed as incurred.

(k) Foreign currency transactions:

Foreign currency transactions entered into directly by the Company are translated using the temporal method. Under this method, monetary items are translated at year-end exchange rates. Other balance sheet items are translated at historical exchange rates. Income statement items are translated at average rates prevailing during the year, except for the cost of inventories and amortization which are translated at their respective historical rates. Translation gains and losses are included in income.

(l) Loss per common share:

Basic loss per common share is computed by dividing income available to common shareholders by the weighted average number of common shares outstanding during the year.

Diluted loss per common share is calculated using the treasury stock method and reflects the potential dilution of securities by including stock options and contingently issuable shares, in the weighted average number of common shares outstanding for a period, if dilutive.

(m) Use of estimates:

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of percentage of completion and estimated project costs and revenues for implementation and modification contracts, the recoverability of property and equipment, useful lives for amortization purposes, provisions for doubtful accounts, stock based compensation, and provision for unused lease facilities, contingencies and liability amounts. Actual results may ultimately differ from these estimates.

(n) Government assistance:

The Company periodically applies for financial assistance under available government incentive programs. Government assistance relating to capital expenditures is reflected as a reduction of the cost of such assets. Government assistance relating to research and development expenditures is recorded as a reduction of current year expenses when the related expenditures are incurred. Repayments are recognized when the liability is determined to be repayable.

EPIC DATA INTERNATIONAL INC.

Notes to Consolidated Financial Statements
(All tabular dollar amounts are expressed in thousands of Canadian dollars, except per share amounts)

Years ended September 30, 2005 and 2004

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2. Significant accounting policies (continued):

(o) Stock based compensation and other stock-based payments:

Effective October 1, 2002, the Company applied the fair value based method of accounting prescribed by the Canadian Institute of Chartered Accountants ("CICA") in Handbook ("HB") section 3870, "Stock-Based Compensation and Other Stock-based Payments", to stock-based payments to non-employees, and employee awards that are direct awards of stock, call for settlement in cash or other assets, or are stock appreciation rights that call for settlement by the issuance of equity instrument, and elected to continue to apply the settlement method of accounting for other stock-based compensation awards granted to employees. Under the settlement method, no compensation expense is recognized upon exercise of employee options; cash consideration received is recorded as share capital.

The CICA Accounting Standards Board amended CICA HB section 3870 to require entities to account for other stock-based compensation awards granted to employees using the fair value based method for fiscal years beginning on or after January 1, 2004. Under the fair value based method, compensation cost is measured at fair value at the date of grant and is expensed over the award's vesting period. In 2004, the Company elected to adopt the fair value method for stock-based compensation and other stock-based payments, effective October 1, 2003. Under the prospective method of adoption selected by the Company, $101,602 (2004 - $13,835) of stock-based compensation and other stock-based payment costs were recognized in 2005.

The Company discloses the pro forma effect of accounting for these transactions under the fair value based method, on the assumption that the fair value recognition provisions had been applied to all stock based compensation and other stock-based payment transactions incurred on or after October 1, 2002 (see note 7).

(p) Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted for 2005.

EPIC DATA INTERNATIONAL INC.

Notes to Consolidated Financial Statements
(All tabular dollar amounts are expressed in thousands of Canadian dollars, except per share amounts)

Years ended September 30, 2005 and 2004

3. Accounts receivable:

	2005	2004
Trade accounts receivable	$ 3,065	$ 3,825
Accrued accounts receivable	621	753
	$ 3,686	$ 4,578

4. Inventory

	2005	2004
Raw materials	$ 126	$ 150
Work in process	17	-
Finished goods	308	211
	$ 451	$ 361

5. Property and equipment:

			2005
	Cost	Accumulated amortization	Net book value
Furniture and fixtures	$ 209	$ 136	$ 73
Leasehold improvements	1,213	663	550
Equipment	1,850	1,484	366
Software	1,240	1,162	78
	$ 4,512	$ 3,445	$ 1,067

			2004
	Cost	Accumulated amortization	Net book value
Furniture and fixtures	$ 209	$ 118	$ 91
Leasehold improvements	1,213	533	680
Equipment	1,728	1,446	282
Software	1,202	1,109	93
	$ 4,352	$ 3,206	$ 1,146

EPIC DATA INTERNATIONAL INC.

Notes to Consolidated Financial Statements
(All tabular dollar amounts are expressed in thousands of Canadian dollars, except per share amounts)

Years ended September 30, 2005 and 2004

6. Non-revolving credit facility:

On July 14th, 2005, the Company concluded terms for a non-revolving credit facility with a Canadian chartered bank. The credit facility is insured by Export Development Canada, based on the value of an export sale to a defense industry customer located in the US. Additional security is provided by a general security agreement in favour of the bank. The maximum amount of credit on commencement of this facility, which is denominated in U.S. dollars, is USD $631,000 (CDN $733,000). Repayment of the loan will correspond to collection from the customer, based on the Company completing certain project deliverables. The facility is scheduled to be fully repaid by March 2006. Interest will be charged at the bank's floating US dollar prime lending rate plus 1% (at September 30, 2005, the bank's US dollar prime rate is 7.25%). During 2005, CDN $10,844 (2004 - $nil) in interest expense was recorded in the Net finance charges section of the Statement of Operations, in relation to this facility.

7. Share capital and contributed surplus:

(a) Authorized:

The authorized capital of the Company consists of an unlimited number of common shares with no par value, and an unlimited number of preference shares with no par value.

(b) Issued and outstanding:

	Price per share	Shares issued	Common shares	Contributed surplus	Share capital
Balance, September 30, 2003		12,467,684	$ 58,519	$ -	$ 58,519
Exercise of employee stock options	0.51	20,000	10	-	10
Contributed surplus:					
Stock-based compensation – stock options		-	-	14	14
Balance, September 30, 2004		12,487,684	58,529	14	58,543
Exercise of employee stock options	0.56	59,530	34	-	34
Contributed surplus:					
Stock-based compensation – stock options (note 7(c))		-	-	83	83
Related party loan – warrants (note 7(d))		-	-	128	128
Balance, September 30, 2005		12,547,214	$ 58,563	$ 225	$ 58,788

EPIC DATA INTERNATIONAL INC.

Notes to Consolidated Financial Statements
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Years ended September 30, 2005 and 2004

7. Share capital and contributed surplus (continued):

(b) Issued and outstanding (continued):

The following pro forma financial information reflects the net loss and basic and diluted loss per common share had the Company recognized stock-based compensation using a fair value method for stock options awarded between October 1, 2002 and September 30, 2003.

	2005	2004
Loss for the year - as reported	$ (1,722)	$ (5,179)
Loss for the year - pro forma	(1,739)	(5,196)
Basic and diluted loss per common share - as reported	(0.14)	(0.41)
Basic and diluted loss per common share - pro forma	(0.14)	(0.42)

The fair value of each stock option grant was estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2005	2004
Expected life of the option in years	3	3
Volatility	87%	87%
Dividend yield	0%	0%
Risk-free interest rate	4%	4%

The weighted average fair value of stock options granted during the year ended September 30, 2005 was $0.40 per option (2004 - $0.34).

(c) Stock options:

The Company offers an incentive stock option plan that provides for the granting of options to directors, officers and employees.

Options to purchase up to 2,300,000 (2004 - 2,300,000) common shares may be granted with an exercise price of each option equal to the market price of the Company's common shares on the trading day immediately preceding the date of grant. An option's maximum term is ten years (five years for consultants). The majority of the shares available for issuance under the stock option plan are subject to vesting over a four year period.

EPIC DATA INTERNATIONAL INC.

Notes to Consolidated Financial Statements
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Years ended September 30, 2005 and 2004

7. Share capital and contributed surplus (continued):

(c) Stock options (continued):

A summary of the Company's stock option activity is as follow:

	Weighted average exercise price	Shares
Balance, September 30, 2003	$ 1.69	1,698,500
Granted	0.49	670,000
Exercised	(0.51)	(20,000)
Cancelled, expired, forfeited	(3.07)	(608,000)
Balance, September 30, 2004	1.04	1,740,500
Granted	0.58	130,000
Exercised	(0.56)	(59,530)
Cancelled, expired, forfeited	(3.38)	(48,000)
Balance, September 30, 2005	$ 0.69	1,762,970

The exercise prices and expiry dates of the outstanding options as at September 30, 2005 are as follows:

Stock Options Outstanding				Options Exercisable	
Range of exercise price	Options outstanding	Weighted average remaining contract life (months)	Weighted average exercise price	Options	Weighted average exercise price
$0.51 – 1.00	259,970	8	$0.59	259,970	$0.59
1.20	448,000	16	1.20	392,000	1.20
0.45 – 0.55	255,000	25	0.48	231,563	0.47
0.44 – 0.75	670,000	45	0.49	321,458	0.50
0.40 - 0.87	130,000	52	0.58	15,000	0.40
$0.40 – 1.20	1,762,970	30	$0.69	1,219,991	$0.74

Compensation expense for the stock options granted to employees for the year ended September 30, 2005 totalled $83,827 (2004 - $13,835). This value is determined based on their fair value at the grant dates, calculated using the Black-Scholes option pricing model.

EPIC DATA INTERNATIONAL INC.

Notes to Consolidated Financial Statements
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Years ended September 30, 2005 and 2004

7. Share capital and contributed surplus (continued):

(d) Share purchase warrants:

On June 21, 2005, the Company concluded terms of an unsecured loan with a company owned by a member of the Board of Directors. The principal amount of $1,000,000 is repayable on June 21, 2007, but at the Company's option, the loan can be repaid earlier without penalty. Interest is payable, in arrears, every six months, at a rate of 7% per annum.

Terms of the loan include the issuance of 250,000 warrants which entitle the holder to purchase shares of the Company for a price of $1.25 per share. Should the Company elect to repay the loan prior to the expiration of the full two year term, unexercised warrants held at the time of repayment, up to a maximum of 200,000 warrants, will be cancelled. 50,000 warrants will be exercisable up to June 21, 2007, irrespective of the potential early repayment of the loan.

The following table describes the accounting treatment of the related party loan and the associated warrants:

	Warrants	Contributed surplus	Related party loan	Accreted value of consideration	Net finance charges
At inception, June 21, 2005	250	$128	$872	$1,000	
Amortization - June 21 to September 30, 2005			17	17	$17
As at September 30, 2005	250	$128	$889	$1,017	$17

A summary of the warrant activity is as follows:

Balance, September 30, 2004	$	-
Warrants issued during 2005		128
Balance, September 30, 2005	$	128

The fair value of warrants was estimated on the date issued using the Black-Scholes option pricing model with the following weighted average assumptions:

	2005
Expected life of the option in years	2
Volatility	91%
Dividend yield	0%
Risk-free interest rate	4%

EPIC DATA INTERNATIONAL INC.

Notes to Consolidated Financial Statements
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Years ended September 30, 2005 and 2004

7. Share capital and contributed surplus (continued):

(d) Share purchase warrants (continued):

The summary of the Company's warrants outstanding as at September 30, 2005 is as follows:

Share Purchase Warrants Outstanding				Warrants Exercisable	
Exercise price	Warrants outstanding	Weighted average remaining contract life (months)	Weighted average exercise price	Weighted exercisable	Weighted average exercise price
$1.25	250,000	21	$1.25	250,000	$1.25

8. Income taxes:

The Company's effective income tax rate varied from the basic federal, provincial and state income tax rates as follows:

	2005	2004
Combined basic tax rates for Canada, U.S., and other applicable jurisdictions	34.7%	35.1%
Recovery for income taxes based on above rate	$ (597)	$ (1,818)
Increase (decrease) in the tax rate resulting from:		
Losses for which no income tax benefit is recorded	597	1,818
Loss (recovery) of prior year income taxes	-	(92)
Provision for income taxes (recovery)	$ -	$ (92)

The Company has the following non-capital losses available to reduce future taxes payable in various countries, the tax effect and benefit of which have not been recorded in the accounts, and expire as shown in the table below:

	Non-capital losses
Available until:	
2006	$ 420
2007	6,771
2008	997
2009	2,735
2010	160
2011	-
2012 and beyond	16,338
	$ 27,421

EPIC DATA INTERNATIONAL INC.

Notes to Consolidated Financial Statements
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Years ended September 30, 2005 and 2004

8. Income taxes (continued):

The tax effects of temporary differences that give rise to significant portions of the future tax assets and future tax liabilities at September 30, 2005 and 2004 are presented below:

	2005	2004
Future tax assets:		
Property, equipment and other assets	$ 286	$ 452
Provision for unused lease facilities	294	365
Non-capital losses available for carry forward	9,498	9,192
Total gross future tax assets	10,078	10,009
Less valuation allowance	(10,078)	(10,009)
Net future tax assets	$ -	$ -

9. Segmented information:

The Company operates in a single operating industry segment: development and implementation of electronic source data capture systems.

Geographic information:

	2005		2004	
	Revenue	Property & equipment	Revenue	Property & equipment
North America	$ 12,330	$ 1,038	$ 10,802	$ 1,119
Europe	3,316	29	3,426	27
	$ 15,546	$ 1,067	$ 14,228	$ 1,146

10. Financial instruments:

(a) Fair value:

For certain of the Company's financial instruments, including cash and cash equivalents, accounts receivable, non-revolving credit facility, inventory and accounts payable and accrued liabilities, the carrying amounts approximate fair values due to their immediate or short-term maturity. It was not practical to estimate the fair value of the related party loan as there is no active and liquid market for securities with similar terms, risks and other features.

(b) Exchange risk:

A majority of the Company's contracts are concluded in U.S. dollars and, as such, the Company is exposed to exchange rate fluctuations in this currency.

EPIC DATA INTERNATIONAL INC.

Notes to Consolidated Financial Statements
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Years ended September 30, 2005 and 2004

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11. Related party transactions:

(a) Related party loan:

During the year, on June 21st, 2005, the Company concluded terms of an unsecured loan with a company owned by a member of the Board of Directors. The principal amount of $1,000,000 is repayable on June 21st, 2007, but at the Company's option, the loan can be repaid earlier without penalty. Interest is payable, in arrears, every six months, at a rate of 7% per annum. During 2005, $19,562 (2004 - $nil) in interest expense was recorded in the Net finance charges section of the Statement of Operations, in relation to this loan.

Terms of the loan include the issuance of 250,000 warrants which entitle the holder to purchase shares of the Company for a price of $1.25 per share. Should the Company elect to repay the loan prior to the expiration of the full two year term, unexercised warrants held at the time of repayment, up to a maximum of 200,000 warrants, will be canceled. 50,000 warrants will be exercisable up to June 21st, 2007, irrespective of the potential early repayment of the loan. Further information regarding these warrants is described in Note 7 to these financial statements.

(b) Legal fees:

A Board of Directors member is a senior partner at a firm that has been engaged to provide legal services to the company. The cost of these services, aggregating to $30,845 in 2005 (2004 - $26,871) was charged to selling, marketing and administrative expenses.

The above transactions are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties.

12. Government assistance and contingencies:

In prior years, the Company received research and development assistance from the Government of Canada's National Research Council under its Industrial Research Assistance Program (IRAP). Government assistance received totaled $497,000 ($109,883 in 2002 and $387,117 in 2001) and was applied to reduce related research and development costs. Up to 150% of the assistance received is repayable over a period not exceeding ten years from July 2004 under a royalty arrangement based on sales of certain of the Company's products. Repayments will be accrued and reported in the period(s) when sales of said products are recognized or, when the liability is determined likely to be repayable. Royalty obligations incurred in the year totaled $134,125 (2004 - $32,628) and now aggregate to $166,753 since the commencement of repayments.

EPIC DATA INTERNATIONAL INC.

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Years ended September 30, 2005 and 2004

13. Commitments:

(a) Operating lease commitments:

The Company is committed to operating leases for office premises. The lease payments over the terms of the leases are as follows:

2006	$ 832
2007	761
2008	753
2009	718
2010	177
Thereafter	nil
	$ 3,241

The Company is obligated under a lease for its head office premises, expiring December 31, 2009. The Company is required to provide an irrevocable letter of credit for $2,000,000 as a guarantee for the payment of rent. The letter of credit will by reduced by $400,000 on each anniversary (December 31) for the duration of the lease. The letter of credit is secured by a pledge agreement on certain cash equivalents held by the Company.

(b) Provision for unused leased facilities:

During 2003, it was determined that the amount of space the Company leases for its head office facilities exceeds its requirements and a provision was charged to reflect the related costs of this excess leased space. The accrued provision represented the estimated net present value of future contractual obligations that are in excess of our estimated future requirements. This net present value takes into consideration the offsetting impact of estimated future sublease income against these obligations. The net cash outlay related to these charges will be incurred over the 51 months remaining on the term of the lease and will be funded from available sources of liquidity. As of September 30, 2005, the total accrued provision is $850,000 (2004 - $1,050,000), of which $200,000 is classified as a current liability and included in Accounts payable and accrued liabilities. The decline in the total provision from September 30, 2004 represents the payments made of $200,000 in the year.

Corporate Information

Directors & Senior Officers

Peter Murphy,
President and Chief
Executive Officer

Derek Douglas,
Chairman*

Barclay Isherwood,
Director*

Iain Mant,
Director

Jason Cohenour,
Director*

Paul Blanchet,
Director

James Code,
Chief Financial Officer
and Corporate Secretary

Alex Holowko,
Vice President, Sales,
North America

Paul Bennett,
Managing Director, EMEA

Zahir Abji,
Vice President, Operations

Greg Watkin,
Vice President, Product Development

** Denotes member of Audit Committee*

Auditors
KPMG LLP
Vancouver, BC

Bank
Scotiabank
Vancouver, BC

Legal Counsel
Fasken Martineau
DuMoulin LLP
Vancouver, BC

Register & Transfer Agent
Computershare Investor
Services Inc.
Vancouver, BC

Share Listing
Toronto Stock Exchange

Trading Symbol
EKD

Common Shares:

Issued & Outstanding:
12,547,214

Fully Diluted:
14,560,184

epicdata

epicdata

Epic Data International Inc.
6300 River Road
Richmond, BC
Canada V6X 1X5
Tel: 604 273 9146
Fax: 604 273 1830
www.epicdata.com